

FISCAL NOTE
SB 2985 - HB 3200

March 6, 2004

SUMMARY OF BILL: Changes the apportionment formula for the calculation of franchise and excise taxes. Currently, the formula is a fraction made up of a property factor, plus the payroll factor, plus twice the receipts factor, all divided by *four* -- known as the double-weighted sales apportionment formula. This bill would change the apportionment formula by changing the denominator from four to *three*. The bill also adopts a "throwback rule" for corporate income taxes under which sales receipts of tangible personal property are reassigned ("thrown back"), to the state from where the goods are shipped if the taxpayer is not taxable in the state where the goods are purchased. This would allow Tennessee to capture a part of the tax base that is currently untaxed in any other state. Taxes collected in association with the throwback provision would be earmarked for home and community based services for persons with disabilities who are on a waiting list for services from the division of mental retardation services.

ESTIMATED FISCAL IMPACT:

Increase State Expenditures - \$99,400 One-Time
\$37,701 Recurring

Increase State Revenues - Exceeds \$38,000,000 (\$20,000,000 of which would be earmarked for the Division of Mental Retardation Services)

Estimate assumes:

- Adoption of the apportionment formula changes provides approximately \$18,000,000 in increased revenue to the state.
- The throwback portion of the bill provides approximately \$20,000,000 in increased revenue to the state.
- One-time charges to the state are for software and form changes required by the Department of Revenue to implement the provisions of the bill and for startup expenses for the one new position required by the department.
- A recurring increase in state expenditures for the one new position required by the Department of Revenue to implement the provisions of the bill.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director